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Message Text

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INFO OCT-01 EA-11 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 IO-15 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

AF-10 L-03 STR-08 DRC-01 /155 W
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R 271745Z SEP 73
FM USMISSION OECD PARIS
TO SECSTATE WASHDC 712
INFO AMEMBASSY BONN
AMEMBASSY CANBERRA
AMEMBASSY MADRID
USMISSION BRUSSELS

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E.O. 11652: N/A
TAGS: EFIN, OECD
SUBJECT: PAYMENTS COMMITTEE, SEPTEMBER 24, 1973

REF: (A) PC/A(73)7 (E) C(73)167
(B) C(73)152 (F) DAF/INV/72.27 (SECOND REVISION)
(C) C(73)155 (G) OECD 19848
(D) C(73)164 (H) STATE 135741

1. SUMMARY. PAYMENTS COMMITTEE (PC) TENTATIVELY APPROVED REVISION OF FILMS ITEM IN CODE TO INCLUDE VIDEO CASSETTES (PENDING SPANISH DECISION ON POSSIBLE RESERVATION), APPROVED INVISIBLES COMMITTEE (IC) REPORT ON NINTH EXAMINATION OF RESERVATIONS TO CODE OF LIBERALIZATION OFCURRENT INVISIBLES OPERATIONS (CIOC) TOGETHER WITH DRAFT DECISION INVITING CANADA, FINLAND AND FRANCE TO UNDERTAKE CERTAIN LIBERALIZING MEASURES, MODIFIED DRAFT DECISION CONCERNING PARTIAL LIBERALIZATION OF SPANISH OUTWARD PORTFOLIO INVESTMENT TO RECOGNIZE MORE LIMITED NATURE OF LIBERALIZATION THAN INITIALLY UNDERSTOOD, AND APPROVED INVOCATION BY AUSTRALIA OF ARTICLE
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7(B) DEROGATION TO CAPITAL MOVEMENTS CODE (CMC). SECRETARIAT

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GAVE ORAL STATUS REPORT ON CURRENT WORK FOR XCSS, COMMITTEE
ON FINANCIAL MARKETS, COMMITTEE ON FISCAL AFFAIRS
AND TURKISH CONSORTIUM. ACTION REQUESTED. UNLESS OTHERWISE
INSTRUCTED, MISSION WILL APPROVE IN COUNCIL DRAFT DECISIONS
CONTAINED IN REFS B, C, D, 3 AND FM END OF SUMMARY.

2. REVISION OF FILMS ITEM IN THE CODE: POSITION OF VIDEO
CASSETTES UNDER CIOC IS EXPLAINED IN REF (B). DRAFT DECISION
IN ANNEX TO REF (B) MODIFIES ITEM E/1 OF CIOC TO INCLUDE VIDEO
CASSETTES BY MAKING IT CLEAR THAT ITEM APPLIES TO ALL FILMS,
WHATEVER MEANS OF PRODUCTION. CHANGE IN E/1 PERMITS DELETION
OF FOOTNOTE 1 IN ANNEX 4 TO ANNEX A
OF CIOC. THIS FOOTNOTE HAD INDICATED THAT ALTHOUGH VIDEO CASSETTES
WERE COVERED BY ITEM E/1, PROVISIONS OF FILMS ANNEX WOULD NOT
APPLY TO THEM. THIS HAD BEEN A PROVISIONAL POSITION ON VIDEO
CASSETTES TO ENABLE COMPLETION AND ACCEPTANCE OF 1972 REVISION
OF FILMS ANNEX WTHOUT AT SAME TIME SETTLING DIFFICULT QUESTION
OF VIDEO CASSETTES. PC TENTATIVELY ACCEPTED REPORT AND DRAFT
DECISION REF (B) PENDING DECISION BY SPANISH GOVERNMENT AS
TO WHETHER OR NOT IT NEEDS TO LODGE
RESERVATION. SPANISH EXPERT FELT THAT CHANGE IN ITEM E/1
SHOULD HAVE BEEN FORMULATED IN SUCH A WAY THAT COUNTRIES COULD
RESERVE TO VIDEO CASSETTE ASPECT OF ITEM IF THEY FELT IT
NECESSARY. U.S. REP NOTED THAT FORMULATION IN REF (B) HAD
BEEN SPECIFICALLY DRAFTED IN ORDER TO ALLOW COUNTRIES TO ACCEPT
REVISED ITEM E/1 IF THEY HAD NOT ALREADY HAD RESERVATION ON
EARLIER VERSION. COUNTRIES WISHING TO APPLY LESS LIBERAL
PROVISIONS OF FILMS ANNEX TO FILM CASSETTES, AS TO OTHER MEANS
OF PRODUCTION, WOULD BE FREE TO DO SO. SPANISH REP AGREED
TO OBTAIN FINAL INSTRUCTIONS FROM MADRID AND TO NOTIFY
SECRETARIAT, HOPEFULLY, THAT NO SPANISH RESERVATION WOULD BE
REQUIRED AND THAT THE REPORT AND DRAFT DECISION COULD BE
FORWARDED TO COUNCIL WITHOUT FURTHER MODIFICATION.

3. NINTH EXAMINATION OF RESERVATIONS TO CODE OF LIBERALIZATION
OF CURRENT INVISIBLES OPERATIONS: PC NOTED THAT NINTH IC EXAMIN-
ATION OF THESE RESERVATIONS (OTHER THAN FOR INSURANCE, FILMS
AND ROAD TRANSPORT) HAD BEEN COMPLETED (REF C), THAT NONE OF THE
EIGHT MEMBER COUNTRIES RETAINING 14 RESERVATIONS ON 7 ITEMS
IN CIOC HAD VOLUNTEERED DURING EXMINATION TO REMOVE ANY
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RESERVATIONS, AND AGREED WITHOUT OBJECTION TO RECOMMENDATION
IN ANNEX 4 OF DRAFT COUNCIL DECISION WHICH WOULD INVITE
CANADA TO CONSIDER WITHDRAWING ITS RESERVATION ON MARITIME
FREIGHTS, FINLAND TO CONSIDER LIBERALIZING INLAND WATERWAY
FREIGHT, AND FRANCE TO CONSIDER DIVIDING WITH OTHER COUNTRIES
THE 50 PER CENT SHARE RESERVED TO IT OF MARITIME TRAFFIC
BETWEEN FRANCE, TUNISIA AND ALGERIA. GERMAN REP DISTRIBUTED
SHORT WORKING DOCUMENT (PC WORKING DOCUMENT NO 1 OF SEPT 21,

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1973) WHICH EXPLAINS IN GREATER DETAIL CONTINUED MAINTENANCE OF GERMAN RESERVATIONS ON INLAND WATERWAY FREIGHTS, AND NOTES THAT A HOPED-FOR REMOAL OF THIS RESERVATION BY GERMANY MUST AWAIT FINAL DECISIONS WITHIN EEC CONCERNING AN INTERNATIONAL AGREEMENT ON INLAND WATERWAY TRANSPORT.

4. SPANISH OUTWARD PORTFOLIO INVESTMENT: REF (D) EXAMINES LIBERALIZATION OF OUTWARD PORTFOLIO INVESTMENT UNDERTAKEN BY SPAIN WITH EFFECT FROM APRIL 1, 1973. IT ALSO CONTAINS DRAFT COUNCIL DECISION TO MODIFY SPANISH RESERVATION TO CMC ON ITEM IV/B1 OF LIST A (PURCHASE OF FOREIGH SECURITIES). DURING ITS EXAMINATION THIS QUESTION IC HAD EARLIER BEEN INFORMED THAT LIBERALIZATION WOULD APPLY TO ALL FOREIGN SECURITIES QUOTED ON RECOGNIZED SECURITY MARKETS. US EXPERT AT THAT TIME HAD ASKED OR VERIFICATION THAT THIS LIBERALIZATION INCLUDED OVER-THE-COUNTER MARKETS ACCORDING TO DEFINITION IN ARTICLE 21 OF CMC (REF G). AS FOLLOWUP IN PC, US REP ASKED FOR FURTHER CLARIFICATION ON INCLUSION OVER-THE-COUNTER MARKETS IN LIBERALIZATION UNDER MINISTERIAL ORDER OF MARCH 23, 1973.

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SPANISH REP REPLIED MINISTERIAL ORDER HAD BEEN ORIGINALLY
DRAFTED TO APPLY TO OLDER DEFINITION OF SECURITY MARKETS WHICH
INCLUDED ONLY STOCK EXCHANGES. HE NOTED THAT REFERENCED MINIS-
TERIAL DEGREE REFETS TO FOREIGN STOCK EXCHANGES AND NOT TO
TERMINOLOGY USED IN REF (D), "RECOGNIZED SECURITY MARKETS."
SECRETARIAT NOTED THAT STEMENTNT BY SPANISH AUTHORITIES
IN ANNEX 1 OF REF (D) IS NOT CLEAR ON SUBJECT AND ASKED WHY
SPANISH AUTHORITIE FELT IT NECESSARY TO EXCLUDE OVER-THE-
COUNTER MARKETS WHICH ARE AS WELL REGULATED AS SECURITY EXCHANGE
THEMSELVES. SPANISH REP INDICATED THAT PRESENT LIBERALIZATION
WAS EXPERIMENTAL STEP AND THAT HIS AUTHORITIES HOPE TO BE ABLE
TO EXPAND LIBERALIZATION TO INCLUDE FULL DEFINITION OF
SECURITIES MARKETS IN ARTICLE 21 OF CMC. PC DECIDED TO REVISE
WORDING IN REF (D) BY INSERTING "FOREIGN STOCK EXCHANGES" IN
PLACE OF PRESENT "RECOGNIZED SECURITY MARKET." BELGIUM REP
ASKED WHY LAST PARA PAGE 2 REF (D) SHOULD SPECIFY THAT
TRANSACTIONS MUST TAKE PLACE ON NATIONAL TERRITORY. SPANISH
REP INDICATED THIS WAS MEANT TO ALLOW SWITCHING BETWEEN INVEST-
MENT COMPANIES. THIS RATIONALE NOT CLEAR TO PC.
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5. INVOCATION BY AUSTRALIA OF DEROGATION CLAUSE IN CMC: PC
QUESIONED AUSTRALIAN REP AT SOME LENGTH CONCERNING CERTAIN
ASPECTS OF CONTROLS DESCRIBED IN REF (E). HOWEVER, THERE WAS
NO SIGNIFICANT CRITICISM OF AUSTRALIA'S USE OF THESE CONTROLS
OR OF ITS ARTICLE 7(B) DEROGATION. SECRETARIAT NOTED THAT
AUSTRALIA ESSENTIALLY IS IN SAME POSITION AS OTHER COUNTRIES
(GERMANY, AUSTRIA, SWITZERLAND) RECENTLY UNDERTAKING SIMILAR
MEASURES TO INSULATE THEIR DOMESTIC ECONOMIES FROM INTERNATIONAL
CAPITAL MOVEMENTS. IT SUGGESTED THAT THIS WAS SOMEWHAT JUSTIFIED
IN CURRENT FLUID INTERNATIONAL SITUATION. US REP POINTED TO
EXTENSIVE CHANGES WHICH HAVE OCCURRED SINCE DEC 1972 AND EXPRESSED
HOPE THAT AUSTRALIA WOULD FIND WAYS TO REDUCE COVERAGE OF ITS
DEROGATION IN NEAR FUTURE. HE ALSO ASKED FOR GREATER
CLARIFICTION ON METHOD OF SURVEILLANCE TO BE USED FOR
INTERCOMPANY ACCOUNTS (PG 13 REF E) AND EXPRESSED HOPE THAT
EXCHANGE CONTROLS WOULD BE OPERATED AS FLEXIBLY AS POSSIBLE SO
THAT NO UNDUE HARDSHIPS WOULD BE PLACED ON NORMAL BUSINESS AND
PERSONAL TRANSACTIONS. BELGIAN AND OTHER REPS SECONDED THIS.
AUSTRALIAN REP INDICATED THAT CONTROLS WERE DESIGNED, AND
WERE BEING OPERATED TO GREATEST EXTENT POSSIBLE, BOTH TO MINIMIZE
PROBLEMS CAUSED BY CURRENCY INSTABILITY AND TO AVOID NEGAIVE
REPERCUSSIONS ON REGULAR FLOW OF EVERYDAY BUSINESS. REGARDING
INTERCOMPANY ACCOUNTS, AUSTRALIAN REP INDICATED THAT SURVEILLANCE
WILL BE ENTIRELY CONFINED TO SUBMISSION OF PERIODIC REPORTS TO
NATIONAL BANK AND THAT ARRANGEMENTS BETWEEN BANK AND COMPANIES
REGARDING KIND OF INFORMATIN AND DATES OF SUBMISSION WOULD BE
FLEXIBLE. FIRMS WOULD NOT BE REQUIRED TO MAINTAIN ACCOUNTS
OTHER THAN THOSE ALREADY MAINTAINED IN THEIR INTERNAL BOOK-

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KEEPING, AND GENERALLY WOULD ONLY HAVE TO MAKE PERIODIC
SUBMISSIONS OF CERTAIN OF THEIR REGULAR FINANCIAL STATEMENTS.
BELGIUM REP RECOMMENDED GREATER ATTENTION TO FURTHER LIBERALIZATION
BY AUSTRALIA FOR OUTWARD DIRECT INVESTMENT. AUSTRALIAN REP
RESPONDED THAT WHILE HIS AUTHORITIES DO NOT GIVE AUTOMATIC
APPROVAL FOR SUCH OUTWARD CAPITAL FLOWS (AS REQUIRED BY CODE),
AUSTRALIAN ATTITUDE TOWARD OUTWARD DIRECT INVESTMENT IS QUITE
LIBERAL. APPROVAL IS READILY GIVEN TO ALL DIRECT INVESTMENTS
INVOLVING USE OF AUSTRALIAN TECHNOLOGY AND MANAGEMENT AKILLS
ABROAD OR TO SUPPORT AUSTRALAN EXPORTS. HE INDICATED THAT
POLICY IS NOW ONE OF ENCOURAGING DIRECT INVESTMENT OUTFLOWS.
HE NOTED THAT GOVERNMENT WILL EVEN FINANCE FEASIBILITY STUDIES
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UNDERTAKEN BY DIRECT INVESTORS WHO WISH TO ESTABLISH OPERATIONS
ABROAD.

6. OTHER ACTIVITIES: SECRETARIAT REPORTED ON CURRENT ACTIVITIES
IN FINANCIAL AFFAIRS DIRECTORATE AS FOLLOWS: (1) IC: AT
OCTOBER MEETING IC WILL EXAMINE FRENCH FINANCIAL SYSTEM, FRENCH
RESERVATIONS TO CMC AND FRENCH ARTICLE (C) DEROGATIONS. IT WILL
ALSO MAKE FINAL REVIEW OF REF (F) WHICH ATTEMPTS TO CLASSIFY
QUALITATIVELY PRESENT STATUS OF MEMBER COUNTRY RESTRICTIONS
ON CAPITAL EXPORTS. (2) XCSS: THE SECRETARIAT PAPER BEING PREPARED
FOR MEETING OF XCSS EXPERTS IN MID-OCTOBER SHOULD BE READY
FR DISTRIBUTION BY WEEK OF OCT 1-5, 1973. (3) COMMITTEE ON
FINANCIAL MARKETS IS EXPECTED TO RECEIVE REPORTS (AT ITS
NOV 1973 MEETING) ON QUOTATION OF SECURITIES AND IMPLEMENTATION
OF COUNCIL DECISION ON INTERNATIONAL SECURITY ISSUES. QUEST-
IONNAIRES ON LATTER ITEM HAVE BEEN COMPLETED BY ALL COUNTRIES
EXCEPT CANADA, ITALY, NORWAY, SWEDEN, FINLAND, GREECE, ICELAND,
IRELAND AND TURKEY. (4) COMMITTEE ON FISCAL AFFAIRS EXPECTS TO
CONSIDER AT ITS JAN 1974 MEETING CERTAIN PORTIONS OF REVISED
MODEL TAX TREATY. REGARDING MNC TAXATION, WP6 HAS DECIDED
TO ASK GOVERNMENTS TO SUBMIT VIEWS ON QUESTIONS OF TRANSFER
PRICING, TAXATION AFFECTING TRADE AND INVESTMENT, AND TAX HAVENS.
SECRETARIAT NOTED CLOSE RELATIONSHIP OF WPY ACTIVITIES TO WORK
UNDERWAY IN XCSS, AND SUGGESTED THAT PROBLEMS IN TAXATION WERE
ESPECIALLY DIFFICULT, AND THAT RAPID MOVEMENT COULD NOT BE
EXPECTED IN THIS AREA. ACTION REQUESTED: MISSION REQUESTS
FINAL DEPT REVIEW REF (F) AND WILL ACCEPT SAME IN COUNCIL
UNLESS OTHERWISE INSTRUCTED. DEPT'S EARLIER RESPONSE (REF H)
HAS BEEN INCLUDED IN REVISED VERSION REF (F) AFTER SOME MINOR
ADDITIONAL CHANGES BY SECRETARIAT.
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Draft Date: 27 SEP 1973
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